

## GLOBAL MULTISECTOR CREDIT PROGRAM

(ES-0130)

### EXECUTIVE SUMMARY

<b>Borrower:</b>	Multisector Investment Bank (BMI)	
<b>Guarantor:</b>	Republic of El Salvador	
<b>Executing agency:</b>	Banco Multisectorial de Inversiones [Multisector Investment Bank] (BMI)	
<b>Amount and source:</b>	IDB: (OC, dollar window)	US\$ 42.4 million
	Local counterpart:	US\$ <u>4.711 million</u>
	Total:	US\$ 47.111 million
<b>Terms and conditions:</b>	Amortization period:	20 years
	Grace period:	5 years
	Disbursement period:	42 months
	Commitment period:	36 months
	Interest rate:	variable
	Inspection and supervision:	1.00%
	Credit fee:	0.75%
	Currency:	dollars of the United States of America
<b>Objectives:</b>	The objective of the operation is to support the development of the private sector, especially small and medium-sized enterprises, by increasing the supply of medium- and long-term financing.	
<b>Description:</b>	The program will provide funds to the BMI to finance lending to private enterprises by eligible intermediary financial institutions (IFIs) (credit component) and to provide technical assistance (technical assistance component).	
	The resources for the credit component will be used only for BMI operations with supervised, formal IFIs that meet the eligibility criteria for the program and the Credit Regulations. The subloans will be extended to startups and existing private firms in all economic sectors—manufacturing, trade, and services—in both urban and rural areas, in order to meet their credit needs in the following areas: (i) procurement of fixed assets; (ii) working capital for the expansion, restructuring or modernization of production facilities; and (iii) hiring	

of technical and managerial services to support investments in fixed assets.

The resources for the technical assistance component will be used to finance three subcomponents, the purpose of which is to: (i) expand the BMI's capacity; (ii) strengthen the IFIs in risk analysis; and (iii) promote an increase in financing for rural enterprises. Execution of the technical assistance component will be governed by a technical assistance action plan, which will set forth the specific objectives of the component together with its goals, activities and resources.

**The Bank's  
country and  
sector strategy:**

The proposed operation is fully consistent with the Bank's strategy for cooperation with El Salvador, as defined in the country paper, in that it will help reactivate economic growth and boost competitiveness by supporting private-sector efforts to expand production capacity. The operation will also support the BMI and the financial sector as they make the transition towards greater integration with international financial markets under the provisions of the recently enacted Monetary Integration Act.

**Environmental  
and social  
review:**

The program's direct environmental impact will be neutral, since it will be financing second-tier banking operations. It is possible, however, that the individual investments financed may have an adverse environmental impact. In order to mitigate this risk, all credits to be financed with program funds will be required to have the applicable environmental certifications, issued in accordance with Salvadorian law by the respective authorities of the Ministry of the Environment and Natural Resources. The Credit Regulations for the program will include environmental monitoring mechanisms and will stipulate that end-borrowers must comply with the applicable labor and social legislation.

The Committee on Environment and Social Impact approved the operation on August 31, 2001.

**Benefits:**

The proposed program will be part of the support provided by the Bank to assist the Salvadorian authorities in their efforts to achieve sustainable economic growth by increasing the productivity and competitiveness of private enterprise in the context of an open economy. Achieving this goal will require an ongoing process of industrial modernization and restructuring, together with the replacement and expansion of production assets, for which access to a stable flow of medium- and long-term financing is necessary. Given the domestic capital markets' incipient stage of development and the substantial obstacles that impede access to these markets, especially for small and medium-sized enterprises, the primary source of financing is the banking sector, which is also subject to constraints

with respect to long-term financing. The program will provide a stable supply of long-term resources, thereby supporting the development of the private sector while also helping the BMI adapt to the challenge of financial market integration.

**Risks:**

The program's success will largely depend on whether a stable macroeconomic policy is maintained and leads to an increase in economic activity and in the demand for credit in the private sector. Implementation of the National Reconstruction Program should greatly stimulate economic activity in the country, and the government has indicated that it is committed to maintaining its policy for monetary and fiscal discipline, which has been in place during the current and preceding administrations. Nonetheless, there is a risk that economic activity may decline more sharply than is indicated by the current revised projections in the event of a slowdown in the economies of the country's major trading partners and a further deterioration in its terms of trade.

The stability and development of the financial system may also pose a potential risk for the operation. This risk will be substantially mitigated by the progress made in El Salvador over the past few years in introducing prudential standards, strengthening financial regulation and improving the capacity of the supervisory authorities to enforce those standards properly and to oversee the system.

**Special contractual clauses:**

As a condition precedent to the first disbursement for the credit component, evidence must be submitted that the Credit Regulations have been approved by the board of directors of the BMI, on the terms previously agreed upon with the IDB.

As a condition precedent to the first disbursement for the technical assistance component, a technical assistance action plan must be submitted, previously approved by the BMI board of directors and acceptable to the IDB.

As a special condition precedent to program execution, a management-level official must be appointed to act as permanent liaison with the Ministry of the Environment and Natural Resources so that the application and efficiency of the program's environmental protection regulations can be evaluated on a regular basis (see paragraph 3.7).

**Poverty-targeting and social sector classification:**

This operation does not qualify as a social-equity enhancing project as described in the key objectives for Bank activity under the Eighth General Increase in Resources (document AB-1704), nor does it qualify as a poverty-targeted investment.

**Exceptions to  
Bank policy:**

A revolving fund equivalent to 10% of the amount of the loan will be established to cover the need for liquid resources for the credit and technical assistance components and to limit the administrative expenses incurred by the Bank and the executing agency in implementing this operation (OA-345).

**Procurement:**

Procurement of goods and services will be conducted in accordance with Bank policies and procedures. International competitive bidding will be required for the awarding of contracts for consulting services in the amount of US\$200,000 or more. The program does not call for the construction of any works.